

INFOSPACE INC
Form 10-K
March 11, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 000-25131

INFOSPACE, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

91-1718107
(IRS Employer

incorporation or organization)

Identification No.)

601 108th Avenue NE, Suite 1200, Bellevue, Washington 98004

(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code:

(425) 201-6100

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Stock, par value \$0.0001 per share

Name of each exchange on which registered
NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

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Series C Participating Preferred Stock

(Title of Class)

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the Common Stock held by non-affiliates of the registrant outstanding as of June 30, 2010, based upon the closing price of Common Stock on June 30, 2010 as reported on the NASDAQ Global Select Market, was \$266.9 million. Common Stock held by each officer and director has been excluded because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 25, 2011, 36,425,934 shares of the registrant's Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the definitive proxy statement to be filed by the registrant in connection with the 2011 Annual Meeting of Stockholders (the *Proxy Statement*).

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This report contains forward-looking statements that involve risks and uncertainties. The statements in this report that are not purely historical are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Words such as anticipate, believe, plan, expect, future, intend, may, will, should, estimate, predict, potential, continue, and similar expressions identify forward-looking statements, but the absence of these words does not mean that the statement is not forward looking. These forward-looking statements include, but are not limited to, statements regarding projections of our future financial performance; trends in our businesses; our future business plans and growth strategy, including our plans to expand, develop, or acquire particular operations or businesses; and the sufficiency of our cash balances and cash generated from operating, investing, and financing activities for our future liquidity and capital resource needs.

Forward-looking statements are subject to known and unknown risks, uncertainties, and other factors that may cause our results, levels of activity, performance, achievements and prospects, and those of the Internet industries generally, to be materially different from those expressed or implied by such forward-looking statements. These risks, uncertainties, and other factors include, among others, those identified under Item 1A, Risk Factors and elsewhere in this report. You should not rely on forward-looking statements, which speak only as of the date of this Annual Report on Form 10-K. We do not undertake any obligation to update publicly any forward-looking statement to reflect new information, events or circumstances after the date of this Annual Report on Form 10-K or to reflect the occurrence of unanticipated events.

ITEM 1. Business

Overview

InfoSpace, Inc. (*InfoSpace*, our, or we) offers applications and services that deliver differentiated and convenient benefits for the online consumer. These benefits include the discovery of information, entertainment, and products for sale. We offer a range of search and online retail solutions for consumers and extend our search solutions to our distribution partners.

We operate our business in two primary segments: Core and E-Commerce. Our Core segment is comprised of our Web search offerings to Internet users and our distribution partners. Our E-Commerce segment includes a collection of more than 200 specialty online retail stores under the Mercantila brand. We generally use the term *services* to represent search services and our Core segment and use the term *products* to represent retail products sold through our E-Commerce segment.

We were founded in 1996 and are incorporated in the state of Delaware. Our principal corporate office is located in Bellevue, Washington. We also have an office in Palo Alto, California. Our common stock is listed on the NASDAQ Global Select Market under the symbol *INSP*.

Core Segment

Our Core business uses our metasearch technology to offer users a unique search experience that combines the results of several search engine content providers including Google, Yahoo!, and Bing, among others, and aggregates, filters, and prioritizes the results. This combination provides a more relevant search results page and leverages the investments made by our search customers to continually improve the user experience. Additionally, we believe the combination of results from multiple search customers is likely to yield a greater number of relevant advertisements, which in turn should result in a greater ability to generate revenue from a query, as compared to the results provided by any single search engine.

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We use our metasearch technology to provide online search results on our own branded websites and on the sites of more than 100 distribution partners. Our relationships with our largest content providers are longstanding and have been stable. Some content providers, such as Google and Yahoo!, pay us to distribute their content and we refer to those providers as our search customers.

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We offer online search services directly to consumers through our owned and operated Web properties, such as *Dogpile.com*, *WebCrawler.com*, *MetaCrawler.com*, and *WebFetch.com*, which collectively receive millions of unique visitors each month. We use the term *properties* to refer to the methods in which end users access our search services, which typically are websites and downloadable applications belonging to us or our distribution partners. In addition, we provide search services through the Web properties of distribution partners. Partner versions of our Web offerings are generally private-labeled and delivered with each distribution partner's unique requirements.

Our strategy for the Core segment is to continue to evolve our value proposition of providing multiple sources of content in a single product. We invest in technology to improve the relevancy of our search results, to extend our search services to consumers in entertaining formats, and to provide our distribution partners with valuable product, content management, and hosting services.

E-Commerce Segment

In May 2010, we diversified our offerings with the acquisition of our E-Commerce business, Mercantila. Mercantila's online stores offer specialty items that are typically niche and difficult to find, fulfill a specific customer need, require a significant amount of research before the purchase decision, and are more expensive than the average online purchase. Mercantila strives to offer a convenient online shopping experience for these specialty items by providing a distinctive blend of selection, targeted Web stores, expert advice, and customer service.

Mercantila operates a collection of more than 200 specialty online retail stores, each with its own branded storefront. Mercantila's drop-ship supplier platform enables it to partner with thousands of active vendors who supply its products. Mercantila provides interactive tools and information on its websites to help consumers make informed purchasing decisions. Such information services include detailed product information pages, personalized product recommendations, customer reviews, and other editorial content. Mercantila's customer care representatives are available by phone or email to provide personal guidance and answer customers' questions.

Mercantila's strategy for the E-Commerce segment is to provide a more compelling shopping experience to consumers through ongoing development of its online catalogs and expansion into new categories while providing an expanding assortment within its current categories. Mercantila strives to continue to improve our operating efficiency by investing in and leveraging our technology and relationships with vendors and partners.

See Note 10: Segment Information of the Notes to Consolidated Financial Statements (Item 8, of Part II of this report) for detailed information on revenue and gross margin by segment.

Revenue Sources

Our search services revenue is primarily derived from search content providers who provide paid search links for display as part of our search services. From these content providers, whom we refer to as our search customers, we license rights to certain search products and services, including both non-paid and paid search links. We receive revenues from our search customers when an end user of our Web search services clicks on a paid search link that is provided by that search customer and displayed on one of our owned and operated Web properties or displayed on the Web property of one of our search distribution partners. Revenues are recognized in the period in which such paid clicks occur and are based on the amounts earned and remitted to us by our search customers for such clicks. In addition, we earn revenue from certain distribution partners, such as a fixed monthly fee in exchange for portal infrastructure services.

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We derive a significant portion of our Core revenue from a small number of search customers and we expect that this concentration will continue in the foreseeable future. Google and Yahoo! each accounted for more than

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10% of our total revenues in 2010 and jointly accounted for more than 80% of our total revenues in 2010 and more than 95% in 2009 and 2008. If either of these search customers reduces or eliminates the services they provide to us or our distribution partners, or if either of these search customers is unwilling to pay us amounts they owe us, it could materially harm our business and financial results.

Our main search customer agreements are with Google and Yahoo!. We renewed our principal Yahoo! agreement in January 2011 and it expires in December 2013. Our principal agreement with Google expires in April 2011 and we plan to negotiate its renewal before it expires. Both Google and Yahoo! have requirements and guidelines regarding, and reserve certain rights of approval over, the use and distribution of their respective search products and services. The requirements and guidelines are frequently subject to differing interpretations by the parties and both Google and Yahoo! may modify certain requirements and guidelines of their agreements with us at their discretion. If Google or Yahoo! believe that we or our search distribution partners have failed to meet the requirements and guidelines promulgated under these search customer agreements, they may suspend or terminate our or our distribution partners' use and distribution of such search customer's search products and services, with or without notice, and in the event of certain violations, may terminate their agreements with us. We and our distribution partners have limited rights to cure breaches of the requirements and guidelines.

Google and Yahoo! each make certain representations and warranties to us in the agreements regarding the content and operation of their search services, and we make certain representations and warranties in the agreements regarding our use and distribution of their search services. Under these agreements, the parties also provide for some indemnification relating to these representations and warranties; Google and Yahoo! provide certain indemnification with respect to ownership of the content and technology provided by their search services, and we provide certain indemnification with respect to our, and our distribution partners', use and distribution of Google and Yahoo!'s search services.

Our partners for distribution of our online search services include Internet service providers, Web portals, and software application providers. We generated approximately 35%, 42%, and 23% of our online search revenues through relationships with our top five distribution partners in 2010, 2009, and 2008, respectively. Our agreements with most of our distribution partners come up for renewal in 2011 and 2012, and we plan to negotiate renewals for many of these agreements. In addition, some of our distributors have the right to terminate their agreements immediately in the event of certain breaches. We anticipate that our content and distribution costs for our relationships with our distribution partners will increase as revenues grow, and may increase as a percentage of revenues to the extent that there are changes to existing arrangements or we enter into new arrangements on less favorable terms. Recently, we have experienced increased competition from our search customers seeking to enter into content provider agreements directly with our existing or potential distribution partners, making it increasingly difficult for us to renew agreements with existing major distribution partners or to enter into distribution agreements with new partners on favorable terms.

We generate revenues for our E-Commerce segment by serving customers of Mercantila's collection of online specialty retail stores that feature items that are typically difficult to find online and are more expensive than the average online purchase. We design Mercantila's websites to provide interactive tools and in-depth information about our products to help consumers make informed purchase decisions. We provide customer care representatives that are available by phone or email to provide service and guidance or to answer questions. We strive to offer our customers the lowest prices possible for our products including free shipping on a majority of Mercantila's product catalog. Through the drop-ship supplier platform technology developed by us and licensed from others, we partner with our product vendors and logistic providers to provide fulfillment.

Research and Development

We believe that our technology is essential to expand and enhance our products and services and maintain their attractiveness and competitiveness. Research and development expenses were \$6.8 million in 2010, \$5.6 million in 2009, and \$9.9 million in 2008.

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Intellectual Property

Our success depends significantly upon our technology and intellectual property rights. To protect our rights and the value of our corporate brands and reputation, we rely on a combination of domain name registrations, confidentiality agreements with employees and third parties, protective contractual provisions, and laws regarding copyrights, patents, trademarks, and trade secrets. It is our policy to require employees and contractors to execute confidentiality and non-use agreements that prohibit the unauthorized disclosure and use of our confidential and proprietary information and, if applicable, that transfer to us any rights they may have in inventions and discoveries, including but not limited to trade secrets, copyrightable works, or patentable technologies that they may develop while under our employ. In addition, prior to entering into discussions with third parties regarding our business and technologies, we generally require that such parties enter into confidentiality and non-use agreements with us. If these discussions result in a license or other business relationship, we also generally require that the agreement setting forth the parties' respective rights and obligations include provisions for the protection of our intellectual property rights. For example, the standard language in our agreements with distribution partners provides that we retain ownership of our intellectual property in our technologies and requires them to display our intellectual property ownership notices, as appropriate.

We hold 30 trademark registrations in the United States and 76 trademark registrations in various foreign countries. We also have applied for registration of certain service marks and trademarks in the United States and in other countries, and will seek to register additional marks in the U.S. and foreign countries, as appropriate. We may not be successful in obtaining registration for the service marks and trademarks for which we have applied or in maintaining the registration of existing marks. In addition, if we are unable to acquire and/or maintain domain names associated with those trademarks (for example, *www.dogpile.com*, *www.webcrawler.com*, *www.metacrawler.com*, and *www.infospace.com*), the value of our trademarks may be diminished.

We hold 8 U.S. patents. Our issued patents relate to online search, online advertisements, and location services, among others. We believe that the duration of the applicable patents is adequate relative to the expected lives of their impact on our services. We anticipate ongoing patent application activity in the future. However, patent claims may not be issued and, if issued, may be challenged or invalidated by third parties. In addition, issued patents may not provide us with any competitive advantages.

We may be unable to adequately or cost-effectively protect or enforce our intellectual property rights, and failure to do so could weaken our competitive position and negatively impact our business and financial results. If others claim that our products infringe their intellectual property rights, we may be forced to seek expensive licenses, reengineer our products, engage in expensive and time-consuming litigation, or stop marketing and licensing our products. See the section entitled "Risk Factors" in Part I, Item 1A of this report for additional information regarding protecting and enforcing intellectual property rights by us and third parties against us.

MetaCrawler License Agreement. We hold an exclusive, perpetual worldwide license, subject to certain limited exceptions, to the MetaCrawler intellectual property and related search technology from the University of Washington. This license may apply to certain technology currently used in some of our web search services.

Competition

We operate in the online search and online retail markets, both of which are extremely competitive and rapidly changing. In both markets, our current and prospective competitors include large companies that have substantially greater resources than we have and start-up companies with a variety of innovative products and services.

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Although we believe that no one competitor offers all of the products and services that we do in online search, we face competition from various sources. In particular, Google, Yahoo!, and Bing (Microsoft) collectively control a significant majority of the online search market. Each of these three companies provides

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search results to our search services and also compete with our search services for Internet users and potential distribution partners. In addition, our distribution partners compete with us and with our search customers for Internet users. We also compete with other information and content providers for certain of our specific content services. We believe that the primary competitive factors in the market for online search services are:

the ability to continue to meet the evolving information, content, and service demands of Internet users;

the cost-effectiveness, reliability, and security of the search applications and services;

the ability to attract Internet users to search services in a cost effective way;

the ability to provide programs or services, such as embedded search browsers, default search provider settings within the search browsers, or downloadable applications, that may displace competing search services; and

the ability to develop innovative products and services that enhance the appearance and utility of search services, both to Internet users and to current and potential distribution partners.

The retail business for the products sold on our E-Commerce sites is highly competitive. Competitors with our E-Commerce businesses include: general merchandise retailers that have both an online and brick-and-mortar presence, such as Target, Sears, and Costco; online general merchandise retailers such as Amazon.com, eBay, and Overstock.com; large specialty online retailers such as CSN and Hayneedle; small local and online specialty retailers; and our own vendors selling direct to consumers.

We believe that the primary competitive factors in the online retail market are:

the ability to attract consumers to web stores in a cost effective way;

the ability to provide a wide assortment of products within the targeted categories;

the ability to offer products for sale at a competitive price while maintaining sufficient profit margins; and

the ability to ship products to consumers in an expedient and cost effective manner.

Governmental Regulation

Because of the increasing use of the Internet, U.S. and foreign governments have adopted or may in the future adopt, laws and regulations relating to the Internet, addressing issues such as consumer protection, user privacy, security, pricing, age verification, content, taxation, copyrights and other intellectual property, distribution, advertising, and product and services quality. These or other laws or regulations that may be enacted in the future could have adverse effects on our business, including higher regulatory compliance costs, limitations on our ability to

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provide some services in some states or countries, and liabilities that might be incurred through lawsuits or regulatory penalties. See the section entitled "Risk Factors" in Part I, Item 1A of this report for additional information regarding the potential impact of governmental regulation on our operations and results.

Seasonality

Our Core revenue is affected by seasonal fluctuations in Internet usage, which generally declines in the summer months. Our E-Commerce revenue is seasonally affected, particularly during the fourth quarter holiday season as Mercantila's sales increase.

Employees

As of February 25, 2011, we had 174 full-time employees. None of our employees are represented by a labor union and we consider employee relations to be positive. There is significant competition for qualified

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personnel in our industry, particularly for software development and other technical staff. We believe that our future success will depend in part on our continued ability to hire and retain qualified personnel.

Company Internet Site and Availability of SEC Filings

Our corporate Internet site is located at www.infospaceinc.com. We make available on that site, as soon as reasonably practicable, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, as well as any amendments to those filings and other reports filed with or furnished to the U.S. Securities and Exchange Commission (the "SEC"). Our SEC filings, as well as our Code of Conduct and Ethics and other corporate governance documents, can be found in the Investor Relations section of our site and are available free of charge. Information on our Internet site is not part of this Annual Report on Form 10-K. In addition, the SEC maintains an Internet site at www.sec.gov that contains reports, proxy and information statements, and other information regarding us and other issuers that file electronically with the SEC.

Executive Officers of the Registrant

The following table sets forth certain information as of February 25, 2011 with respect to our executive officers:

Name	Age	Position
William J. Ruckelshaus	46	President, Acting Chief Executive Officer, and Director
Nikhil Behl	37	Chief Executive Officer of Mercantila
David B. Binder	41	Chief Financial Officer and Treasurer
Travis J. McElfresh	40	Chief Technology Officer
Eric M. Emans	37	Chief Accounting Officer
Michael J. Glover	48	Vice President, Distribution and Business Development
Stephen P. Hawthornthwaite	41	Vice President of Corporate Development
Alesia L. Pinney	47	General Counsel and Secretary

William J. Ruckelshaus became President and Acting Chief Executive Officer in November 2010 after serving as a director of InfoSpace since May 2007. Mr. Ruckelshaus served as Chief Operating Officer of Audience Science, Inc. (formerly known as Revenue Science Inc.), an Internet advertising technology and services company, from August 2008 to November 2010, as well as its Chief Financial Officer from May 2006 to November 2010. From July 2002 to April 2006, he served as Senior Vice President, Corporate Development at Expedia, Inc., an online travel agency, where he oversaw Expedia's mergers and acquisitions and led the corporate strategic planning effort. Mr. Ruckelshaus came to Expedia from Credit Suisse First Boston Technology Group, where he was a Director of Mergers & Acquisitions focusing on services, software, and Internet verticals. Mr. Ruckelshaus is a graduate of Princeton University and the University of Virginia Darden School of Business.

Nikhil Behl joined InfoSpace's E-Commerce segment as Chief Executive Officer of Mercantila in May 2010. Mr. Behl has more than 15 years of technology and online retail experience, recently serving as Mercantila's Chief Merchandising Officer overseeing hundreds of business partnerships and product strategy, beginning in 2007. From 2005 to 2007, Mr. Behl served at Hewlett-Packard where he was Vice President of Call Center Sales and Customer Service for HPShopping.com. From 2002 to 2005, Behl served as Vice President of Strategy and Development where he led the integration team that merged Compaq AtHome into HPShopping. Additionally, Mr. Behl served as the Director of Sales and Merchandising for HPShopping.com where he was responsible for managing the strategic direction and operations of products and services. Mr. Behl earned a Bachelor of Science degree in business administration from Menlo College.

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David B. Binder has served as our Chief Financial Officer and Treasurer since January 2008. Mr. Binder joined InfoSpace as Vice President of Finance in October 2004. From November 2001 to October 2004, he served as Director, and later Senior Director, of Business Development at drugstore.com, Inc., an online drug store.

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Eric M. Emans has served as our Chief Accounting Officer since January 2008. Mr. Emans joined the Company as Corporate Controller in September 2006. However, Mr. Emans had previously held various positions at the Company from September 2003 to December 2005, including Manager, Revenue Assurance and Senior Manager, Finance. From December 2005 to September 2006, he served as Director, Mobile Operations, at Corbis Corporation, a provider of visual content and rights services. He began his career as an auditor at Deloitte & Touche LLP.

Michael J. Glover has served as our Vice President, Distribution and Business Development since October 2008. Mr. Glover has held various positions in Business Development since joining InfoSpace in October 2000. From April 2008 to September 2008, he served as Vice President, Business Development. From April 2006 to March 2008, he served as Senior Director, Business Development, after serving as Director, Business Development from June 2004 to April 2006. From January 2004 to June 2004, he served as Senior Manager, Business Development, after serving as Business Development Manager from October 2000 to December 2003.

Stephen P. Hawthornthwaite was appointed InfoSpace's Vice President of Corporate Development in March 2010. He is responsible for managing the Company's merger and acquisition activities and its overall new business development. Mr. Hawthornthwaite has more than 14 years of investment banking experience advising both public and private companies on mergers and acquisitions across multiple industry sectors. Prior to joining InfoSpace, from March 2004 to March 2010, he most recently served as partner and managing director at GCA Savvian, an independent investment banking firm, where he was instrumental in building the firm's digital media franchise and advised on numerous M&A transactions in the digital media and Internet sectors. Previous to his six year tenure at GCA Savvian, from January 1998 to February 2004, Mr. Hawthornthwaite served as an officer in the investment banking divisions at Jefferies Group, Inc. and Robertson Stephens, Inc. Mr. Hawthornthwaite earned a bachelor's degree in political science from Duke University and a J.D. degree from Wake Forest University School of Law.

Travis J. McElfresh was appointed InfoSpace's chief technology officer in September 2010. Mr. McElfresh has more than 15 years of experience in product management, software engineering, operations management, and online consumer experiences and platforms in the technology sector. From December 2008 to June 2010, Mr. McElfresh served as chief technology officer / vice president of product and engineering at 1Cast.com, a news and video service platform startup. From October 2003 to November 2008, Mr. McElfresh was at MSNBC.com as Vice President of Technology overseeing all areas of product development, software engineering, and web operations. From January 2002 to October 2003, Mr. McElfresh served as lead program manager at Xbox where he directed the entire web application platform for Xbox.com. Additionally, Mr. McElfresh has held technical positions at companies including OneSoft, AmeriTeach, and the University of Wyoming. Mr. McElfresh holds a bachelor's degree from Whitman College and an MBA from University of Washington, Michael G. Foster School of Business.

Alesia L. Pinney has served as our General Counsel and Secretary since July 2009. From September 2006 to July 2009, Ms. Pinney provided operational and legal services to four privately held companies in transition, including Sound Inpatient Physicians, LLC as its Chief Administrative Officer, Secretary and General Counsel (2008-09), Talyst, Inc. as its Executive Vice President Operations and Legal (2007-08), Lighthouse Document Technologies, Inc. as its Acting General Counsel (2007), and Weldon Barber as its Chief Operating Officer and General Counsel (2006-07). Prior to such time, Ms. Pinney was employed by drugstore.com, Inc. as its Vice President, Legal and Human Affairs, Secretary and General Counsel from June 2005 to December 2006 and as its Vice President, General Counsel and Secretary from October 2000 to June 2005.

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ITEM 1A. Risk Factors

Most of our revenue is attributable to Google and Yahoo!, and the loss of, or a payment dispute with, either of these search customers (or any future significant search customer) would harm our business and financial results.

We rely on our ability to acquire rights to content from third-party content providers, whom we refer to as search customers, and our future success in our online search business is highly dependent upon our ability to maintain and renew relationships with these search customers. Google and Yahoo! jointly accounted for over 80%, 95%, and 95% of our total revenues in 2010, 2009, and 2008, respectively, and we expect that concentration will continue. Google, Yahoo!, and our other search customers are competitors of each other, and the way we do business with one of them may not be acceptable to one or more of their competitors with whom we also do business. This may result in Google, Yahoo!, or other search customers not renewing their agreements with us on favorable terms or at all. Google, Yahoo!, and other search customers are also our competitors in online search, and they have had relationships with some of our current and potential search distribution partners. In addition to competing with us on their own Web properties, our search customers may, in the future, contract directly with our distribution partners to provide online search services.

If Google, Yahoo!, or any future significant search customer were to substantially reduce or eliminate the content it provides to us or to our distribution partners, our business results could materially suffer to the extent we are unable to establish and maintain new search customer relationships, or expand our remaining search customer relationships, to replace the lost or disputed revenue. We have recently entered into a new agreement with Yahoo! that will expire in December 2013. Our principal agreement with Google expires in April 2011 and we are in the process of negotiating terms for a new or extended agreement. If we are unable to renew our contract with Google before its expiration in April 2011 on terms similar to those in our current agreement, our business and financial results would be negatively impacted and could be materially harmed if we are unable to establish and maintain new search customer relationships, or expand our remaining search customer relationships, to replace the lost revenue.

If any of our third-party content providers, including Yahoo! or Google, are unwilling to pay us amounts that it owes us, or dispute amounts it owes us or has paid to us for any reason (including for the reasons described in the risk factors below), our business and financial results could materially suffer to the extent we were unable to establish and maintain new search customer relationships, or expand our remaining search customer relationships, to replace the lost or disputed revenue. In addition, Yahoo! recently signed an agreement with Bing, under which Bing provides all of Yahoo!'s algorithmic search results and some of its paid search results. If Yahoo! cannot maintain an agreement with Bing on favorable terms, Yahoo!'s ability to provide us with algorithmic and paid search results may be impaired, and our operations and financial performance may be materially impacted as a result.

Failure by us or our search distribution partners to comply with the guidelines promulgated by Google and Yahoo! relating to the use of content may cause that search customer to temporarily or permanently suspend the use of its content or terminate its agreement with us, or may require us to modify or terminate certain distribution relationships.

If we or our search distribution partners fail to meet the guidelines promulgated by Google or Yahoo! for the use of their content, we may not be able to continue to use their content or provide the content to such distribution partners. Our agreements with Google and Yahoo! give them the ability to suspend the use and the distribution of their content for non-compliance with their requirements and guidelines and, in the case of breaches of certain other provisions of their agreements, to terminate their agreements with us immediately, regardless of whether such breaches could be cured.

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The terms of the search customer agreements with Google and Yahoo! and the related guidelines are subject to differing interpretations by the parties. Google and Yahoo! have in the past suspended, and may in the future, suspend their content provided to our websites or the websites of our distribution partners, without notice, when they believe that we or our distribution partners are not in compliance with their guidelines or are in breach of the

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terms of their agreements. During such suspension we will not receive any revenue from any property, ours or our distribution partners, affected by the suspended content, and the loss of such revenue could harm our business and financial results.

Additionally, as our business evolves, we expect that the guidelines of Google and Yahoo!, as well as the parties' interpretations of compliance, breach, and sufficient justification for suspension of use of content will change. These changes in the guidelines and the parties' interpretations of those guidelines may result in restrictions on our use of the Google and Yahoo! search services, and may require us to terminate our agreement with distribution partners or forego entering into agreements with distribution partners. The loss or reduction of content that we can use or make available to our distribution partners as a result of suspension, termination, or modification of distribution or search customer agreements, particularly our Google and Yahoo! agreements, could have a material adverse effect on our business and financial results.

A substantial portion of our revenues is dependent on our relationships with a small number of distribution partners who distribute our online search services, the loss of which could have a material adverse effect on our business and financial results.

We rely on our relationships with online search distribution partners, including Internet service providers, Web portals, and software application providers, for distribution of our online search services. In 2010, 60% of our total revenues came from searches conducted by end users on the Web properties of our search distribution partners. If we had not purchased certain assets from Make The Web Better on April 1, 2010, and the revenue generated by those assets had remained owned by a search distribution partner, 66% of our total revenues in 2010 would have come from searches conducted by end users on the Web properties of our search distribution partners. We generated approximately 30%, 42%, and 23% of our total revenues through relationships with our top five distribution partners in 2010, 2009, and 2008, respectively. There can be no assurance that these relationships will continue or will result in benefits to us that outweigh their cost. Moreover, as the proportion of our revenue generated by distribution partners has increased in previous quarters, we have experienced, and expect to continue to experience, less control and visibility over performance. One of our challenges is providing our distribution partners with relevant services at competitive prices in rapidly evolving markets. Distribution partners may create their own services or may seek to license services from our competitors or replace the services that we provide. Also, many of our distribution partners have limited operating histories and evolving business models that may prove unsuccessful even if our services are relevant and our prices competitive. If we are unable to maintain relationships with our distribution partners, our business and financial results could be materially adversely affected.

Our agreements with most of our distribution partners come up for renewal in 2011 and 2012. In addition, some of our distributors have the right to immediately terminate their agreements in the event of certain breaches. Such agreements may be terminated, may not be renewed, or may not be renewed on favorable terms, any of which could adversely impact our business and financial results. We anticipate that our distribution costs for our revenue sharing arrangements with our distribution partners will increase as revenue grows, and may increase as a percentage of revenues to the extent that there are changes to existing arrangements or we enter into new arrangements on less favorable terms.

In addition, competition continues for quality consumer traffic in the online search market. Recently, we have experienced increased competition from our search customers as they seek to enter into content provider agreements directly with our existing or potential distribution partners, making it increasingly difficult for us to renew agreements with existing major distribution partners or to enter into distribution agreements with new partners on favorable terms. Any difficulties that we experience with maintaining or strengthening our business relationships with our major distribution partners could have an adverse effect on our business and financial results.

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If advertisers perceive that they are not receiving quality traffic to their sites through their paid-per-click advertisements, they may reduce or eliminate their advertising through the Internet. Further, if Google, Yahoo!, or other search customers perceive that they are not receiving quality traffic from our own websites or the Web property of a distribution partner, they may reduce the fees they pay to us. Either of these factors could have a negative material impact on our business and financial results.

Most of our revenue from our online search business is based on the number of paid clicks on commercial search results served on our owned and operated Web properties or our distribution partners' Web properties. Each time a user clicks on a commercial search result, the search customer that provided the commercial search result receives a fee from the advertiser who paid for the click and the search customer pays us a portion of that fee. If the click originated from one of our distribution partners' Web properties, we share a portion of the fee we receive with such partner. If an advertiser receives what it perceives to be poor quality traffic, meaning that the advertiser's objectives are met for an insufficient percentage of clicks for which it pays, the advertiser may reduce or eliminate its advertisements through the search customer that provided the commercial search result to us. This leads to a loss of revenue for our search customers and consequently fewer fees paid to us. Also, if a search customer perceives that the traffic originating from one of our Web properties or the Web property of a distribution partner is of poor quality, the search customer may discount the amount it charged all advertisers whose paid click advertisements appeared on such website or Web property based on the amount of poor quality traffic the search customer deems to have been generated, and accordingly may reduce the fees it would have otherwise paid us. The search customer may also suspend or terminate our ability to provide its content through such websites or Web properties if such activities are not modified to satisfy the search customer's concerns. The payment of fewer fees to us or the inability to provide content through such websites or Web properties, particularly the content of Google and Yahoo!, could have a material negative effect on our business and financial results.

Poor quality traffic may be a result of invalid click activity. Such invalid click activity occurs, for example, when a person or automated click generation program clicks on a commercial search result to generate fees for the Web property displaying the commercial search result rather than to view the Web page underlying the commercial search result. Some of this invalid click activity is referred to as click fraud. When such invalid click activity is detected, the search customer may not charge the advertiser or may refund the fee paid by the advertiser for such invalid clicks. If the invalid click activity originated from one of our distribution partners' Web properties or our owned and operated properties, such non-charge or refund of the fees paid by the advertisers in turn reduces the amount of fees the search customer pays us. The resulting loss of revenue, particularly with respect to Google or Yahoo! content, could harm our business and financial results.

Initiatives we undertake to improve the quality of the traffic that we send to our search customers may not be successful and, even if successful, may result in loss of revenue in a given reporting period. For example, during the first half of 2010, we removed certain traffic from some distribution partners in an effort to improve traffic quality, and these actions, while successful in improving traffic quality, had a material negative impact on our revenues for the first and second quarters of 2010.

A significant part of our growth strategy involves identifying, acquiring, or developing and successfully integrating businesses or technologies, some or all of which may not be complementary to our current operations or leverage our current infrastructure and operational experience. Our financial and operating results will suffer if we are unsuccessful in integrating our acquisitions.

An important component of our strategy for future growth is to identify, acquire, or develop and successfully integrate new businesses or technologies into InfoSpace. For example, as a result of our May 2010 acquisition of certain assets of Mercantila, Inc., we began operating an online retail business that includes a collection of more than 200 specialty online retail stores. We may be unable to identify acceptable targets for acquisition or development. If we are successful in identifying targets, those targets may not be complementary to our current Core search or E-Commerce operations and may not leverage our existing infrastructure or

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operational experience. Further, competition for acquisitions has been, and may in the future continue to be, intense. As a result, even if we are able to identify an acquisition that we would like to consummate, we may not be able to complete the acquisition on commercially reasonable terms. Moreover, any such acquisition may not prove successful. In the past, our financial results have suffered significantly due to impairment charges of goodwill and other intangible assets related to prior acquisitions.

Acquisitions or development of new businesses or technologies may involve the use of cash, potentially dilutive issuances of stock, the potential incurrence of debt and contingent liabilities, or amortization expenses related to certain intangible assets. If outside financing is needed, we may be unable to obtain it on acceptable terms, or at all, in light of the current capital market conditions or other factors. The cost of development or acquisition, as the case may be, may be greater than anticipated by us or investors.

Acquisitions involve numerous other risks that could materially and adversely affect our results of operations or stock price, including:

difficulties in assimilating the operations, products, technology, information systems and management, and other personnel of acquired companies that result in unanticipated costs, delays, or allocation of resources;

the dilutive effect on earnings per share as a result of issuances of stock, as well as, incurring operating losses and the amortization of intangible assets for the acquired business;

stock volatility due to the perceived value of the acquired business by investors;

diverting management's attention from current operations and other business concerns, including potential strain on financial and managerial controls and reporting systems and procedures;

disruption of our ongoing business or the ongoing acquired business, including impairment of existing relationships with our employees, distributors, suppliers, or customers or those of the acquired companies;

diversion of capital from other uses;

failing to achieve the anticipated benefits of the acquisitions in a timely manner, or at all;

difficulties in acquiring foreign companies, including risks related to integrating operations across different cultures and languages, currency risks, and the particular economic, political, and regulatory risks associated with specific countries; and

adverse outcome of litigation matters or other contingent liabilities assumed in or arising out of the acquisitions.

Developing or acquiring a technology, service, or business, and then integrating that technology, service, or business into InfoSpace, will be complex, time consuming, and expensive, particularly if we acquire a technology, service, or business that is not in our current industries of online search and online retail. For example, the successful integration of an acquisition requires, among other things, that we: retain key personnel; maintain and support preexisting supplier, distribution, and customer relationships; and integrate accounting and support functions. The complexity of the technologies and operations being integrated and, in the case of an acquisition, the disparate corporate cultures and/or industries being combined, may increase the difficulties of integrating an acquired technology or business. If our integration of acquired or

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internally developed technologies or businesses is not successful, we may experience adverse financial or competitive effects. Moreover, there can be no assurance that the short- or long-term value of any technology or business that we develop or acquire will be equal to the value of the cash and other consideration that we paid or expenses we incurred.

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Our new E-Commerce business is subject to many risks.

Our E-Commerce business is still in development, and we cannot ensure that it will succeed. We intend to offer additional types of products or related online retail services through our E-Commerce sites, but cannot provide assurance that any of them will be successful or that their failure will not result in harm to our overall business. The additions and modifications to our business as a result of our expansion into online retail have increased the complexity of our business. Future additions to or modifications of our business are likely to have similar effects. We may not be able to manage growth in our E-Commerce business effectively, which could damage our reputation, limit our growth in other areas, and negatively affect our operating results.

Our new E-Commerce business is subject to a number of additional risks, including the following risks and risks described elsewhere in this Item 1A, among others:

the risk that we will be unable to attract and retain customers cost-effectively, which would harm our ability to achieve and maintain profitability. Because much of our current E-Commerce business is based on one-time transactions with customers for relatively high-priced items, we must constantly acquire new customers. We rely on relationships with online services, search engines, affiliate marketing websites, directories, and other websites and online retail businesses to host and provide content, advertising banners, and other links that direct customers to our E-Commerce websites, and if we are unable to develop or maintain these relationships on acceptable terms, our ability to attract new customers could be harmed;

the risk that we may owe back taxes and penalties in the event that states in which we do not currently remit sales tax successfully assert that we are required to remit sales tax on products we sell to consumers in those states. If we are forced to remit sales tax for products sold in a particular jurisdiction, we may also be required to increase product prices for customers in that jurisdiction, which could impair our ability to compete for those customers (particularly for sales of higher value items) and harm our revenue;

the risk that we will fail to detect and sufficiently control credit card fraud, which could reduce our net revenues and our gross profit percentage;

the risk of product liability claims, which could result in costly and time-consuming litigation, decreased sales, damage to our brands, and have material adverse effects on our business, financial position, and operating results, particularly if the claim exceeds our or the vendor's insurance coverage or the vendor lacks the financial ability or willingness to properly indemnify us for the claim;

the risk of a significant number of merchandise returns, which could harm our business, reputation, and results of operations, and the risk that any change to returns policies intended to reduce the number of product returns may result in customer dissatisfaction, fewer initial sales, and fewer repeat customers; and

other risks associated with acquisitions.

If we do not address these and other risks timely and effectively, our E-Commerce business may not succeed.

We rely substantially on third-party relationships for our E-Commerce business. If these relationships do not continue on favorable terms, or if the third parties do not perform in the manner we expect, our business will suffer.

We rely on our relationships with independent product vendors for the products that we offer for sale on our E-Commerce websites. Our business will suffer if we are unable to develop and maintain relationships with product vendors that allow us to obtain sufficient quantities of merchandise on acceptable commercial terms and in a timely manner. We have relationships with thousands of vendors for the products we offer for sale on our

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websites. We depend on our vendors to provide almost all of the products we sell, as we do not generally keep products we sell in inventory. If we do not maintain our existing relationships or build new relationships with vendors on acceptable commercial terms, we may be unable to maintain a broad selection of merchandise. We generally do not have long-term supply agreements, price guarantees, or exclusive arrangements with our vendors. As a result, we cannot guarantee high levels of product quality and selection at competitive prices because our vendors generally do not have a continuing obligation to provide us with merchandise at historical levels or prices or at all. In most cases, our relationships with our suppliers do not restrict the suppliers from selling their inventory to other traditional or online merchandise liquidators or retailers, which could in turn limit the selection of products available on our websites, particularly during peak seasons for those products.

In addition, we rely upon third-party delivery services for the shipment of products to customers. These relationships may not continue on terms we find acceptable, or at all, if our relationships with third-party delivery services are terminated or impaired, or if these third parties are unable to deliver products for us because of labor issues, deteriorating financial or business conditions, natural disasters, or any other reason, we would be required to use alternative carriers for the shipment of products to our customers. In any of these circumstances, we may be unable to engage alternative carriers on a timely basis, upon terms we find acceptable, or at all. In addition, third-party delivery services may not ship to our customers on a timely and consistent basis. Unexpected increases in shipping costs, delivery times, or damaged products could harm our business, reputation, and financial condition and results of operations.

We also have agreements with third-party service providers to provide processing and administrative functions with respect to our E-Commerce call center, warehouse, email and online marketing, search engine optimization, and other areas. Services provided by third parties could be interrupted as a result of many factors, such as natural disasters, failures of the providers' technology or personnel, or inability to manage peak demand during busy seasons. Failure by third parties to provide us with these services on a timely basis and within our service level expectations could harm our business. In addition, to the extent we are unable to maintain our outsourcing arrangements, we may incur substantial costs to either bring those services in-house or transition them to other providers, which may not be successful. In the interim, we could face significant losses in revenue due to decreased ability to market, accept, or fulfill orders.

We have a history of incurring net losses, we may incur net losses in the future, and we may not be able to regain or sustain profitability on a quarterly or annual basis.

Although we generated net income in our last two years, we have incurred net losses on an annual basis for all but five of the years since our inception, and as of December 31, 2010, we had an accumulated deficit of \$1.0 billion. We may incur net losses in the future, including but not limited to losses resulting from our operations, loss on investments, the impairment of goodwill or other intangible assets, losses from acquisitions, restructuring charges, or expense related to stock-based compensation and other equity awards. There can be no assurance that we will be able to achieve and maintain consistent profitability in the future.

Our financial results are likely to continue to fluctuate, which could cause our stock price to continue to be volatile or decline.

Our financial results have varied on a quarterly basis and are likely to continue to fluctuate in the future. These fluctuations could cause our stock price to be volatile or decline. Many factors could cause our quarterly results to fluctuate materially, including but not limited to: